

SWM Committee Executive Summary

Fiscal year 2012 presents the Commonwealth with its most difficult budget challenge in memory. While the state economy continues to improve – outpacing the national recovery – the state budget is forced to grapple with the loss of \$1.5 billion in federal stimulus funds at a time when countless programs have already endured three years of funding reductions. The painful cuts and difficult choices reflected in this budget are a testament to the Senate’s commitment to meeting these dual challenges head on in a fiscally responsible manner.

In spite of these cuts, the Committee budget maintains the Senate’s strong commitment to the state’s most vulnerable residents who rely on state programs to maintain their quality of life and provide a better future for their children. This budget also builds on the Senate’s track record of focusing on performance management to reform how state government delivers services. By combining these priorities, this budget directs available state resources to the programs that are most effective and efficient.

The Senate Ways and Means Committee budget closes a \$1.9 billion budget gap through funding reductions, ongoing revenue initiatives and one time revenues. These three types of budget solutions have been used for each year of the fiscal downturn, but the combination of these three sources in fiscal year 2012 stands in sharp contrast to previous budgets. In last year’s budget, the state used \$1.8 billion in one-time sources to balance the budget. The Committee’s budget proposal for the upcoming fiscal year uses \$440 million in one-time solutions. This reduction of more than 75% in one-time budget solves is essential for closing the state’s structural budget gap and improving the state’s long term fiscal condition.

Fiscal Year 2012 Budget – Cuts and Revenues

The reduction in one-time revenues used in the Committee budget means that a larger part of the budget gap must be closed through spending cuts. Most notably, the Committee budget reduces health care spending by close to \$750 million from projected full funding for fiscal year 2012. In addition, like the Governor’s budget proposal and the final House budget, the Committee reduces discretionary local aid to cities and towns by \$65 million. All told, the Senate Ways and Means budget reduces or eliminates 277 line items and level funds 221 line items from their fiscal year 2011 spending level. In total, the Senate Ways and Means Committee budget cuts approximately \$1.5 billion from the spending level necessary to maintain fiscal year 2011 services in fiscal year 2012.

The level of cuts in the Committee budget would be substantially greater if not for the continued recovery of state tax revenues. In fiscal year 2012, the state projects \$20.525 billion in total tax revenues - an increase of \$1.2 billion from the projections used for the fiscal year 2011 budget. Increased tax revenues are essential to limiting cuts in fiscal year 2012 and are a further sign of the state’s strengthening economy. Already in fiscal year 2011, the state has upgraded consensus tax revenue to \$19.784 billion, up 3.7% from the original consensus revenue figure of \$19.078 billion. Since the upgrade, revenues have continued to exceed updated revenue benchmarks. Without

question, the state's economy is on the path to recovery and by continuing the responsible fiscal leadership of the past three years, the Committee budget places the state on a course to maintain and strengthen its recovery.

Fiscal Year 2012 Budget – Commitment to Reform

Over the past three years, the Senate has taken the lead reforming the state's transportation infrastructure, ethics laws, education policy and approach to economic development. The Committee budget carries on this commitment to reform through initiatives in indigent defense, housing, caseload forecasting and municipal health care.

Indigent Defense

Massachusetts boasts an indigent defense system that is unsurpassed in terms of quality of representation. Unfortunately, the cost of this quality has grown out of proportion to other areas of government spending. The Committee budget proposes reforms to the indigent defense system that will result in substantial savings while maintaining a commitment to quality.

Under Massachusetts' present system, 90% of indigent defendants are represented by private bar advocates, while 10% are represented by public defenders. The use of private bar advocates is an essential quality component of the system— providing flexibility and eliminating conflict of interest issues – but the current lack of balance in the system's public/private mix has been a major contributor to increasing costs.

The Senate Ways and Means budget proposes moving towards a balanced 50/50 mix of private bar advocates and public defenders over the next two years. By creating a more even balance between public and private representation, the state can better control costs by redistributing, where appropriate, cases to full-time employees.

In addition to changing the balance between public and private representation, the Committee budget also changes the makeup of the Committee for Public Counsel Services. Under the Senate Ways and Means proposal, the board would be reduced to 9 members (from the current 15) and 4 appointments would be given to the legislature and governor. These changes will retain the strong independence of the current board, but will provide a new perspective by requiring members to have varied backgrounds that include public defense and fiscal management.

Housing

The Senate Ways and Means Committee budget adopts the Governor's proposal to alter the way in which the state provides shelter and housing options for homeless families. As with indigent defense, state funding for the existing Emergency Assistance program has steadily increased over the past three years. In spite of this increased financial commitment, families in the Emergency Assistance program still struggle to transition to long-term, sustainable housing.

In order to address this mismatch of funding and successful outcomes, the Committee budget devotes \$37.3M to shelter diversion programs. These funds will provide housing assistance to prevent some families from entering the shelter system as well as helping those already in shelter to transition to permanent housing. Housing support funds will be used to provide up to three years of rental subsidies, housing permanency case management services and other benefits to help families weather temporary income shocks or other emergencies without entering the system.

By combining these housing supports with the existing shelter safety net, the state will reform the way it provides homeless families with housing options, moving toward a system that is focused on long-term sustainable housing. In developing the proposal, Senate Ways and Means worked to ensure that any reforms do not endanger the protections the existing shelter safety net offers to families. While protecting access to shelter, these reforms will change the system's emphasis to providing better long-term outcomes for needy families.

Caseload Forecasting

Each year more than half of the state's budget is affected by caseload projections. Whether MassHealth membership, Group Insurance Commission enrollment or eligibility for subsidized child care, accurate projections of caseload determine the accuracy of the annual budget. In spite of the importance of accurate projections, the state has no uniform system for making projections or evaluating their quality.

The Senate Ways and Means Committee budget proposes a new Caseload Forecasting Office that will be responsible for making accurate caseload projections in a number of state programs and evaluating the quality of our projections. Modeled after the Caseload Forecasting Council in the state of Washington, this new office will emphasize quantitative rigor, quality benchmarks and transparency. The office will be overseen by a board of executive and legislative appointments to ensure that all projections can be used, understood and trusted by everyone responsible for developing the annual budget.

Implementing a more consistent and transparent approach to forecasting demand for state programs is important because it will allow for better long-term policy planning and reduce the need for substantial supplemental appropriations or other mid-year decisions that often must be made without sufficient time for analysis.

Municipal Health Care

The pressure that employees' and retirees' health insurance costs places on municipal budgets is not a new problem. In fact, in each of the past two budgets, the Senate has voted to give municipalities greater ability to design local health care plans in order to control costs. These Senate proposals were not ultimately adopted and the continuing fiscal condition heightens the urgency of addressing the spiraling cost of health insurance for Massachusetts municipalities.

The Senate Ways and Means Committee budget creates a new, expedited process for municipalities to achieve savings in health insurance costs either by transferring coverage to the Group Insurance Commission or by implementing co-payments, deductibles and other health plan features that are no greater than those in the Group Insurance Commission. Cities and towns which elect to use this new tool will be able to respond to their fiscal challenges, saving jobs and preserving local services.

While providing this valuable new tool to the Commonwealth's cities and towns, the Committee proposal also preserves a meaningful voice for municipal employees and retirees in determining their health care costs. The Committee proposal requires that a municipality collectively bargain with both employees and retirees who would be impacted by any savings proposal, and further requires that the municipality include a plan to mitigate or cap the impact of changes on employees, retirees, low-wage workers and heavy users of health care. The Committee budget also includes important health care protections for workers such as provisions for Health Reimbursement Arrangements, Flexible Health Care Spending Accounts, and a prohibition on mid-year plan design changes by the Group Insurance Commission.

Fiscal Year 2012 Budget –Program Integrity

The difficult budget choices of the past four years have highlighted the importance of program integrity. The Senate Ways and Means Committee budget includes a number of initiatives and programs that will better enable the state to identify programs that work, to measure the success of new initiatives and to reduce waste and inefficiency.

The Committee proposes creating three new program integrity initiatives that will improve program delivery and generate substantial savings for the Commonwealth. The Committee budget includes a new auditing and enforcement grant program that will allow departments to reestablish program integrity processes, which have been eliminated or reduced due to budget cuts, in areas where they will generate the greatest return on investment. In discussions with state agencies, we have learned that some agencies could identify with near certainty areas where improved auditing abilities would produce returns that outweighed the state's investments. By establishing this small grant program, agencies that can demonstrate this type of return will be given the resources to restore their auditing functions without diverting funding from their core mission.

The Committee budget also includes a separate line item to support MassHealth auditing and recoveries. MassHealth accounts for more than one-third of the state budget. While MassHealth already operates a number of program integrity efforts, there are areas where existing resources do not allow for sufficient scrutiny. The new line item proposed in the Committee budget enables MassHealth to increase field auditing capacity in areas known to be at high risk of fraud or overpayment.

Finally, the Committee proposes a new unit within the Operational Services Division to conduct vendor audits. Each year the state spends billions of dollars on contracts to human service vendors, but oversight of these contracts is limited to desk audits, which are unlikely to uncover evidence of inappropriate billing or fraud. This new unit will be devoted to identifying contracts that display

certain risk factors and then conducting in-depth field audits of those contracts. In addition, this new unit will be responsible for recovery of any funds owed the state due to fraud, overpayment, or inappropriate expenses. By keeping this recovery function within the unit, state agencies will not be required to act as collection agents – a role that is often inconsistent with their core mission.

Fiscal Year 2012 Budget – Performance Management

The hallmark of the reforms that the Senate has championed in recent years is a focus on performance management. Most notably in transportation and economic development, the Senate's reforms have identified and addressed areas of government where policy decisions were not clearly linked to consistent goals and where program performance was not consistently measured against quantifiable standards. A strong foundation of knowledge as to whether programs and policies are successful in achieving their goals prepares policymakers to make better decisions moving forward.

The Committee budget provides funding for a new office of Commonwealth Performance Accountability and Transparency (CPAT) that will track the effectiveness of programs throughout government through the state's MassGOALS program. In addition, the new office will coordinate state efforts to maximize receipt of federal grants.

Aside from the new CPAT office, the Senate Ways and Means Committee budget emphasizes performance management across all areas of government:

Education

The Committee proposal includes \$3 million for a new Performance Management Grant Program for state universities and community colleges. This grant program, which was also included in the Governor's budget recommendations, will provide additional funding to campuses that implement or expand evidenced-based programs that better connect students to the labor market, effectively engage students and campuses with surrounding communities and improve the quality and real world applicability of the course offerings.

The Committee budget also requires education grant programs to establish and track quality benchmarks. Each year, the state spends millions of dollars on similar programs designed to improve school readiness and literacy. Each program has merit, but in times of limited resources it is imperative that the state can adequately assess program effectiveness.

Corrections and Criminal Justice

The Senate Ways and Means Committee budget also applies new performance management measures to the state's \$2 billion criminal justice system. Ensuring that those individuals leaving corrections facilities are able to reintegrate into society is essential for reducing recidivism and controlling corrections costs. The budget includes a new method of funding for Community Corrections facilities that will tie continued support to program quality and utilization.

In addition, the budget creates a commission that is charged with examining the state's entire system of criminal justice and corrections. This commission, which will have representation from a wide variety of stakeholders, will for the first time examine each interconnected aspect of criminal justice within the context of improving outcomes, increasing efficiency and controlling costs. In recent years, a number of states have undertaken bipartisan reforms of their criminal justice systems. This commission will determine whether or not similar reform is needed in Massachusetts.

Aid to Cities and Towns

The Senate Ways and Means Committee budget sets aside \$8 million to be distributed to cities and towns through a competitive grant process to promote efficiencies, improve data collection and directly address public safety and education funding issues.

Through this competitive grant program, \$4 million will be distributed to cities and towns that are interested in greater regionalization of services or other efficiencies that will improve the delivery of local services. The program will also work with regional planning agencies and regional school districts to pay for one time technical assistance and startup costs that will generate long term savings.

The Committee budget also targets \$4 million in competitive municipal grants to public safety and education. In the past three years, increased federal stimulus aid has been instrumental in offsetting state aid cuts to public education and public safety. As federal stimulus funds will disappear completely in fiscal year 2012, cities and towns will face daunting reductions to core local services. In an effort to mitigate these cuts, the Senate Ways and Means budget targets:

- \$2 million for public safety grants for communities that have rising crime rates and fewer police officers than at the beginning of the recession; and
- \$2 million for education aid grants for communities whose local contribution for education exceeds the target amount set by the distribution formula.

Both of these smaller grants will be competitive, meaning that those cities, towns and school districts that can best demonstrate effective use of these funds will receive additional funds.

Fiscal Year 2012 Budget – Targeted Investments

Over the course of the recession, no area of government has been spared funding and service reductions. Even in the area of health care, where cost growth has required the state to increase expenditures by \$2.3 billion since fiscal year 2008, the recession has forced the elimination of dental benefits, the reduction of payment rates to struggling hospitals and increased co-pays for prescriptions medications.

Within this context of cuts, the Senate Ways and Means Committee has prioritized maintaining programs and services that most directly help those in need and most effectively position our youngest residents for future success:

Early Intervention

The program that best personifies this approach is Early Intervention. Early Intervention provides services for young children with developmental delays. By providing these services to children before age three, the program has a remarkable track record of limiting the need for more expensive, less effective intervention services in later years. Early Intervention results in substantially better outcomes for children and savings for school districts and the state. The Department of Public Health estimates that during the 2009-2010 school year, Early Intervention services were responsible for \$29 million in special education cost savings to cities and towns.

The Committee budget funds Early Intervention at the level necessary to maintain the existing system without changing eligibility standards or creating additional obstacles to participation. This commitment requires the Senate Ways and Means budget to increase Early Intervention funding by nearly \$10 million over the level proposed by the Governor. This investment is necessary to provide families with the services they need and will help to avoid substantial increases to special education costs in the future.

Mental Health

Like many other human services, the need for mental health programs increases in tough economic times. Demand for mental health services has steadily increased just as state support has been most limited.

The Senate Ways and Means Committee budget ensures that state mental health services are maintained in the face of our most difficult fiscal year. By increasing mental health funding by \$22.3M over the fiscal year 2011 level, this budget will allow the state to maintain its inpatient mental health care, while providing the necessary investments in mental health clubhouses and other community programs. These investments ensure that residents with mental health issues receive the support and treatment they need.

Veterans

Each year, Massachusetts welcomes home veterans who have served their country. State veteran outreach centers are the access points where these men and women can connect with the services they need, including employment assistance and counseling. The Senate Ways and Means Committee budget increases state support for these vital veteran resources by approximately 15%. With additional funding, these programs can better respond to growing demand.

The Committee budget also includes funding for a new program that will train recent veterans to become counselors for returning veterans with post traumatic stress disorder and other conditions. This new program, which will be run in conjunction with the Massachusetts School of Professional Psychology, will enable veterans to use their military background to help others with similar experiences.

The Committee budget provides an increase of close to 15% for the state's veteran homeless shelter services. These shelters provide essential services for veterans from around the state who are unable to maintain housing and often struggle with substance abuse or mental health issues. As the Committee budget directs additional resources to helping new veterans transition back into society, it is equally important to ensure that veterans from previous conflicts continue to receive the programs and supports that they deserve.

Fiscal Year 2012 Budget – 2012 and Beyond

Closing the fiscal year 2012 budget gap requires making tough choices and difficult cuts. However, by addressing the state's fiscal challenges head on, this Committee budget puts the state in a position to continue its economic recovery and leave the recession of the last four years behind. As we move into what we hope will be more prosperous times, this budget protects core government services and lays the foundation for the state to make more informed policy choices through a focus on program integrity and performance management.